

GENERAL FUND ESTIMATED SURPLUS/ (DEFICIT)

Prior Year's (2001-2002) Surplus: The Mayor's 2002-2003 Proposed Budget assumes no General Fund surplus or deficit for the current year (2001-2002). However, the Budget Department currently projects a General Fund surplus of \$81,784, based on its most recent analysis of various General Fund appropriations and revenues.

As detailed below, the Budget Department's projection for the year ending June 30, 2002, consists of a net deficit in revenues of \$74.3 million and a net surplus in appropriations of \$74.4 million.

<u>Surplus (Deficit) Identified By General Fund Department or Item</u>	<u>Revenue Surplus/(Deficit)</u>	<u>Appropriations Surplus/(Deficit)</u>	<u>Net Surplus/(Deficit)</u>
Buildings and Safety Engineering	\$ (3,100,000)	\$ 878,462	\$(2,221,538)
Civic Center	(312,000)	(1,808,577)	(2,120,577)
Department of Public Works	(292,390)	11,804,373	11,511,983
Finance	(547,798)	5,787,489	5,239,691
Fire	(290,653)	3,493,539	3,202,886
Information & Technological Services	30,000	7,227,217	7,257,217
Law	(510,100)	2,163,100	1,653,000
Planning & Development	2,031,802	1,262,169	3,293,971
Police	-	(6,581,314)	(6,581,314)
Public Lighting	950,000	5,055,086	6,005,086
Recreation	(3,000,000)	9,878,935	6,878,935
Zoological Institute	(287,488)	1,961,192	1,673,704
36 th District Court	4,259,946	(1,258,034)	3,001,912
Municipal Parking	500,000	571,782	1,071,782
Other Agencies - (net)	(5,073,903)	9,197,441	4,123,538
Non-Departmental Items:			
Property Tax	(17,078,100)	-	(17,078,100)
Municipal Income Tax	(57,900,000)	-	(57,900,000)
Central Staff Services	4,782,000	-	4,782,000
Prior Year's Surplus	(7,454,500)	-	(7,454,500)
Wagering Tax	11,624,900	-	11,624,900
DRMS - HR Payroll - Water	(4,200,000)	-	(4,200,000)
DRMS Operating Costs	-	8,955,805	8,955,805
City Vehicles	-	3,679,890	3,679,890
Encumbrances Closed Out to DRMS	-	4,113,586	4,113,586
Other Non-Departmental Items	1,522,400	5,901,527	7,423,927
Employee Fringe Benefits:			
Hospitalization – Retired	-	(1,663,000)	(1,663,000)
Workers' Compensation	-	1,077,000	1,077,000
Unused Sick Leave	-	3,497,000	3,497,000
Other Fringe Benefits – (net)	-	(767,000)	(767,000)
Total Projected General Fund Surplus (Deficit)	<u>\$ (74,345,884)</u>	<u>\$ 74,427,668</u>	<u>\$ 81,784</u>

The Budget Department's projection of a \$0.1 million surplus for the year ending June 30, 2002, consists of a net deficit in revenues of \$74.3 million and a net surplus in appropriations of \$74.4 million, as detailed in the above schedule.

According to the Mayor's 2002-2003 Proposed Budget message to the City Council on April 12, 2002, the \$0.1 million surplus resulted from eliminating a projected \$75 million deficit through a series of management initiatives, beginning with a cost-cutting plan developed with input from City Departments that reduced the projected deficit by \$44.5 million. In addition, a freeze of selected unspent appropriations reduced the projected deficit by an additional \$26 million. Other factors in reducing the deficit include higher than expected wagering taxes, improved property sales and settlement of negotiations with the State of Michigan over funds for the 36th District Court as the State phased out its support of district courts.

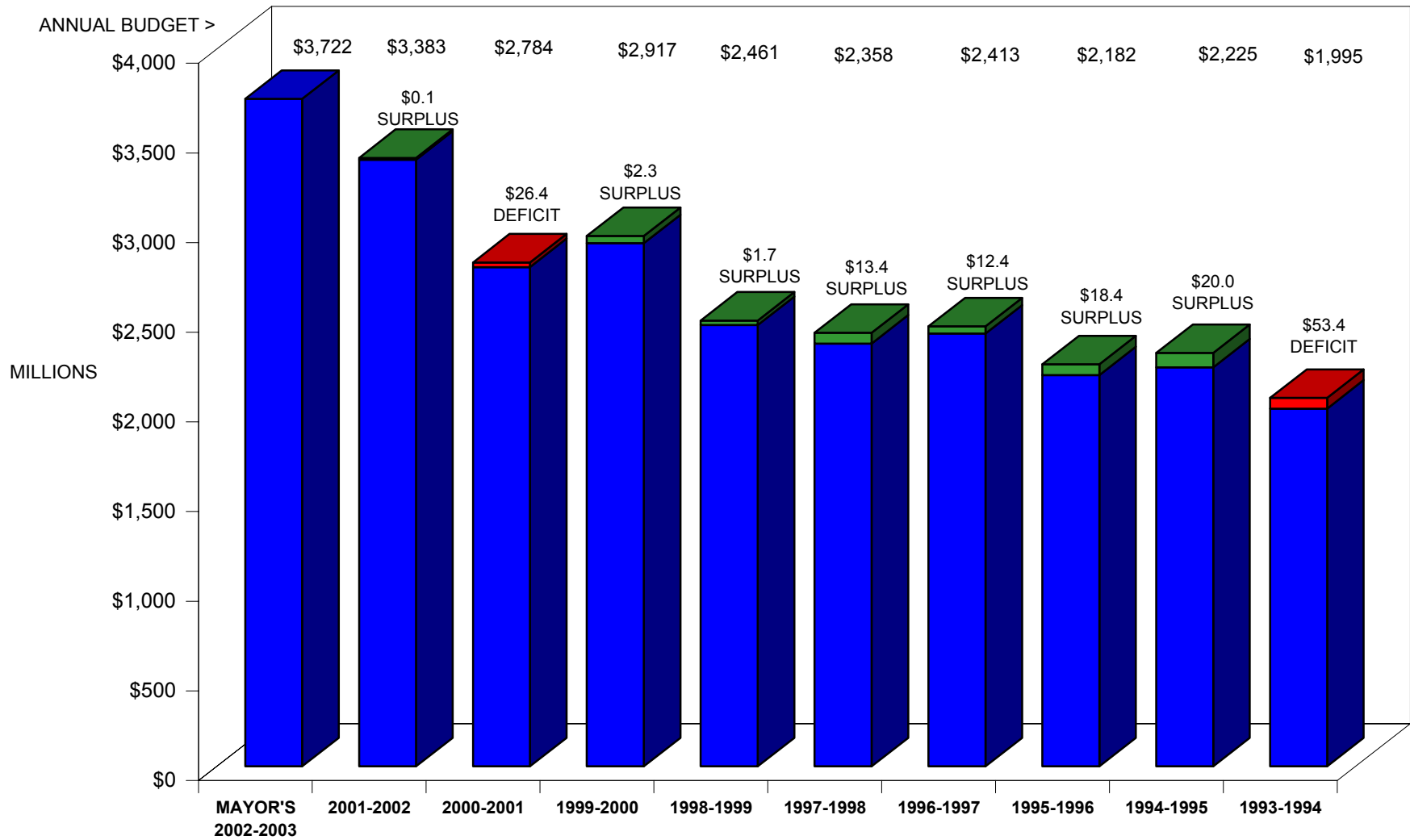
General Fund appropriations account for about \$1.509 billion, or about 44.6%, of the City's total appropriations of \$3.383 billion in the 2001-2002 Budget.

The Budget Department's current estimate of the General Fund surplus is based on the best available information, as of April 2002, and on various assumptions and projections, and is subject to change.

COMPARATIVE TOTAL FISCAL YEAR BUDGETS

(INCLUDING ACTUAL SURPLUSES and DEFICITS)

(In Millions)



NOTE: The 2001-2002 surplus is a Budget Department estimate.

STATE OF MICHIGAN – BUDGETARY LAWS

The Mayor's Proposed Budget for 2002-2003 is in compliance with the State of Michigan "Uniform Budgeting and Accounting Act" (Public Act 2 of 1968, as amended), which requires a budget whereby estimated expenditures cannot exceed total estimated revenues, so that the budget as submitted is "balanced". This Act, as included in Section 141.435, Subsection 15 (2) of the Michigan Compiled Laws, states:

"The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceed from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations."

Under Michigan Public Act 275 of 1980 [Section 141.921, Subsection 21 (2) of the Michigan Compiled Laws], any local unit of government that ends its fiscal year in a deficit condition, must submit a financial plan to correct the deficit with the Michigan Department of Treasury. It is unlikely that the City will need to formulate such a plan. The Mayor's Proposed Budget assumes no surplus or deficit for the year ending June 30, 2002.

The 2002-2003 Mayor's Proposed Budget is in compliance with the City Charter (Section 8-204) which also requires a balanced budget. The Charter states that "the total of proposed expenditures shall not exceed the total of estimated revenues" and any surplus or deficit during a current fiscal year shall be entered as an item in the following year's budget.

BUDGET STABILIZATION RESERVE FUND

Detroit's Budget Stabilization Reserve Fund, a "rainy day fund", was established by City ordinance in 1979. City Ordinances 324-H and 341-H provide that one-half of a General Fund surplus for a fiscal year will be included as revenue in the following year's budget and the other one-half of the surplus will be transferred to the Budget Stabilization Reserve Fund. The Budget Stabilization Reserve Fund, accounted for as a reserved portion of the General Fund's fund balance, was established to cover future General Fund deficits, provide funds to restore employees laid off during prior fiscal years, and to cover expenses arising from natural disasters.

The Budget Stabilization Reserve Fund's current balance of \$34.1 million is based on one-half of the audited General Fund surpluses of \$20 million, \$18.4 million, \$12.4 million, \$13.4 million, \$1.7 million, and \$2.3 million, for each of the six fiscal years ended June 30, 1995, through 2000, respectively. The current balance of \$34.1 will be used in 2001-2002 to fund the \$26.4 million General Fund deficit for the year ended June 30, 2001, which will reduce the current balance to approximately \$7.7 million, as of June 30, 2002.

The 2002-2003 Mayor's Proposed Budget projects neither a surplus nor deficit for the fiscal year 2001-2002. If this proves accurate, the Budget Stabilization Reserve Fund balance will remain at approximately \$7.7 million, as of June 30, 2002. The actual surplus or deficit for the fiscal year 2001-2002 will not be known until the City's annual financial audit is completed.

RISK MANAGEMENT FUND

The Risk Management Fund was established by City Ordinance (Ord. No. 16-95) in 1995. The Ordinance states, "The Risk Management Fund shall cover liability to third parties for any loss or damage whatsoever arising out of negligence, tort, contract or otherwise accruing payable by the City from and after July 1, 1994, and for which insurance could be provided by a third party insurer, but for which the City has determined to self-insure, including, without limitation, any obligation for which the City may be held liable under Worker's Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury, in accordance with applicable law". The Risk Management Fund accounts for claim and lawsuit payments of the General Fund Departments and DDOT.

A total of \$100 million in self-insurance bonds was issued in 1995 and the proceeds were deposited in the Risk Management Fund. Each fiscal year the Risk Management Fund receives premiums from the General Fund and the Detroit Department of Transportation (DDOT) to cover expected claim and lawsuit payments. It also receives earnings from investment of fund assets and reimbursements from the State.

Appropriations of the General Fund and DDOT to pay premiums to the Risk Management Fund included in the 2002-2003 Mayor's Proposed Budget are compared with the 2001-2002 Budget as follows:

	Budgeted Appropriations for Premiums (In Millions)		
	2002-2003 Mayor's Budget	2001-2002 Budget	Increase (Decrease)
General Fund	\$46.1	\$48.6	\$(2.5)
DDOT	13.8	12.5	1.3
Total Premiums	<u>\$59.9</u>	<u>\$61.1</u>	<u>\$(1.2)</u>

We analyzed the methodology employed to determine the amount budgeted for premiums to the Risk Management Fund, and noted some problems which had a minor net impact on the pertinent appropriation. We will discuss this matter with the Budget Department to avoid similar problems in the future.

Premiums are based on a five-year running average of actual payouts on claims and lawsuits. There were large payouts in 1998-1999 and 1999-2000, particularly for litigation pertaining to DDOT. The \$1.2 million decrease, included in the 2002-2003 Mayor's Proposed Budget compared to the 2001-2002 Budget, represents a 2% decrease.

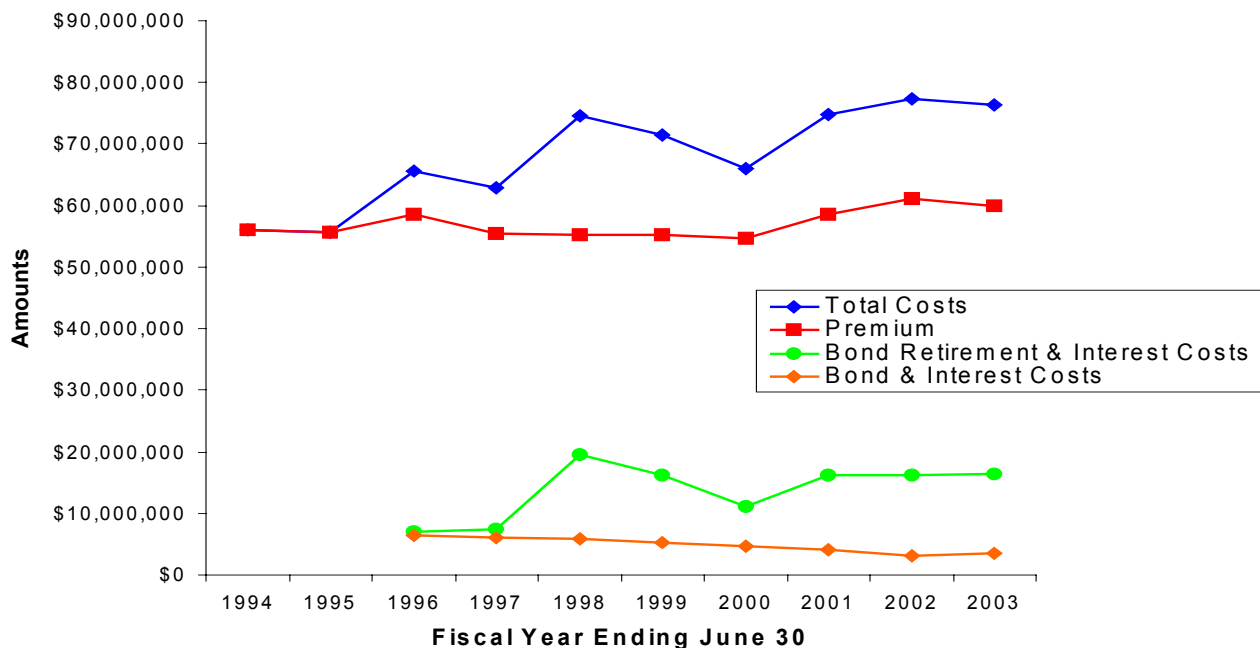
The following table presents budgeted appropriations for the ten fiscal years from 1993-1994 through 2002-2003 to cover the cost of claims (including workers compensation) and lawsuits against the City related to General Fund agencies and DDOT. Also, beginning in 1995-1996, the amounts in the table represent premiums to the Risk Management Fund, and debt service (bond retirements and interest and bond related costs) on the Risk Management Fund self-insurance bonds.

Budgeted Appropriations (In Millions)				
Fiscal Year	Costs/Premiums for General Fund & DDOT	Bond Retirements	Bond & Interest Costs	Total
1993-1994	\$ 55.9	\$ N/A	\$ N/A	\$ 55.9
1994-1995	55.6	N/A	N/A	55.6
1995-1996	58.6	0.5	6.5	65.6
1996-1997	55.4	1.5	6.0	62.9
1997-1998	55.2	13.6	5.9	74.7
1998-1999	55.2	11.0	5.2	71.4
1999-2000	54.7	6.6	4.6	65.9
2000-2001	58.6	12.0	4.1	74.7
2001-2002	61.1	12.5	3.6	77.2
2002-2003	<u>59.9</u>	<u>13.6</u>	<u>2.8</u>	<u>76.3</u>
Ten Year Total	<u>\$570.2</u>	<u>\$71.3</u>	<u>\$38.7</u>	<u>\$680.2</u>

The increase from \$55.9 million for fiscal year ended June 30, 1994 to \$76.3 million in fiscal year ending June 30, 2003 is due in large part to bond retirements and bond and interest costs related to the bonds issued in 1995 to finance the Risk Management Fund.

The following graph portrays and charts budgeted appropriations to finance the costs/premiums for claims and lawsuits of the General Fund and DDOT, plus the related debt of the Risk Management Fund from the fiscal years ended June 30, 1994 through June 30, 2003.

Risk Management Fund
Chart of Premium and Bond Retirement and Interest Costs



A total of \$45.0 million of the \$100 million of Risk Management Fund self-insurance bonds issued in 1995 have been retired, leaving a balance of \$55.0 million of bonds payable, as of June 30, 2001.

The table below shows the Risk Management Fund's actual expenditures, revenues, excess or deficiency of revenues, and fund balance for the fiscal years 1994-1995 through 2000-2001 (the latest available year).

Actual Expenditures, Revenues, and Fund Balance (In Millions)				
Fiscal Year	Claims Expenditures	Revenues	Excess/ (Deficiency) of Revenues	Fund Balance
Beginning Balance				\$100.0
1994-1995	\$ 48.8	\$ 11.3	\$ (37.5)	62.5
1995-1996	57.8	56.9	(0.9)	61.6
1996-1997	52.8	59.2	6.4	68.0
1997-1998	55.6	50.0	(5.6)	62.4
1998-1999	74.0	53.2	(20.8)	41.6
1999-2000	61.8	56.3	(5.5)	36.1
2000-2001	<u>51.7</u>	<u>60.4</u>	<u>8.7</u>	44.8
Total	<u>\$402.5</u>	<u>\$347.3</u>	<u>\$(55.2)</u>	

As shown in the preceding table, the fund balance of the Risk Management Fund was \$44.8 million on June 30, 2001. Over the seven-year period ended June 30, 2001, a total of \$402.5 million in claims and lawsuits have been paid by the Risk Management Fund, which were financed by \$347.3 million in revenues (consisting primarily of General Fund and DDOT premiums paid to the Risk Management Fund) and \$55.2 million of self-insurance bond proceeds. The difference between the \$100 million in self-insurance bond proceeds and the Risk Management Fund balance of \$44.8 million, at June 30, 2001, is the \$55.2 million of bond proceeds used to pay claims.

Based on our analysis of the Risk Management Fund, we note these financial concerns:

- The fund balance of the Risk Management Fund increased by \$8.7 million, from \$36.1 million on June 30, 2000 to \$44.8 million on June 30, 2001, \$10.2 million less than the \$55.0 million owed for the self-insurance bonds on June 30, 2001.
- The magnitude of the City's risk management problems are reflected in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001, which includes an estimate in Risk Management Fund type liabilities of \$196.2 million, an increase of \$2.3 million from the \$193.9 million estimate for June 30, 2000. As a result, we anticipate that the payouts of the Risk Management Fund will likely increase in the future, unless the City's efforts to address this issue improve.

DEPARTMENT OF TRANSPORTATION

The following schedule compares Total Appropriations and Total Revenues for the Detroit Department of Transportation (DDOT) operations in the 2002-2003 Mayor's Proposed Budget to the fiscal year 2001-2002 Budget:

	<u>In Millions</u>		
	2002-2003 Mayor's <u>Budget</u>	2001-2002 <u>Budget</u>	Increase (Decrease)
Total Appropriations	<u>\$ 181.9</u>	<u>\$ 181.0</u>	<u>\$ 0.9</u>
Revenues:			
State Operating Assistance	\$ 57.9	\$ 61.9	\$ (4.0)
Farebox Revenue	31.3	27.0	4.3
General Fund Contribution to DDOT	67.6	73.4	(5.8)
General Fund Contribution to DTC	10.8	11.4	(0.6)
General Obligation Bond Sale	7.0	0.0	7.0
Other Operating Revenue	0.8	0.8	0.0
Claims Fund Revenue	<u>6.5</u>	<u>6.5</u>	<u>0.0</u>
Total Revenues	<u>\$ 181.9</u>	<u>\$ 181.0</u>	<u>\$ 0.9</u>

State Operating Assistance Background

Public Act 51 of 1951 restricts State Operating Assistance for urban public transit agencies, with a population greater than 100,000, to an amount up to 50% of their eligible operating expenses, as defined by the State of Michigan Department of Transportation. An eligible expense reimbursement formula is used to compute the amount of operating assistance urban transit agencies receive from the State. An adjusted amount (for eligible expenses) is multiplied by a percentage, as determined by the State, to calculate the amount of the distribution to transit agencies. The State aggregates the eligible operating expenses of the DDOT and the Suburban Mobility Authority for Regional Transportation (SMART) to compute the State Operating Assistance payments for both entities. According to the formula, the DDOT receives 65% and the SMART receives 35% of the distribution amount from the State.

Percentage for Eligible Expense Reimbursement Formula

The 2002-2003 Mayor's Proposed Budget includes an estimate of \$57.9 million for State Operating Assistance, a \$4.0 million decrease from the previous budget. The decrease in State Operating Assistance is primarily due to a decrease in the reimbursement percentage used by the City to develop the State Operating Assistance budget estimate. The reimbursement percentage used to estimate State Operating Assistance was 37.5% in the 2002-2003 Mayor's Proposed Budget, as compared to a 40% reimbursement percentage in 2001-2002.

In addition, the reimbursement percentage used by the Michigan Department of Transportation (MDOT) to estimate State Operating Assistance was 38.1%.

City and State Comparisons of State Operating Assistance Revenues

The City's budgeted revenues for State Operating Assistance closely approximate the MDOT revenue estimates. According to MDOT analysts, DDOT will receive \$57.2 million for

State Operating Assistance in 2002-2003. This estimate is based on \$157.7 million eligible expenses for DDOT and a reimbursement percentage of 38.1%. The estimate for State Operating Assistance in the 2002-2003 Mayor's Proposed Budget is \$57.9 million. This amount is based on \$168.2 million eligible operating expenses and a 37.5% reimbursement percentage. The net effect of these differences between the State and City estimates is \$0.7 million.

Farebox Revenue

The budgeted farebox revenue is \$31.3 million for 2002-2003, an increase of \$4.3 million (15.9%) from 2001-2002. This difference results from a fare increase of \$0.25 for regular passengers (from \$1.25 to \$1.50) and students and a 5.4% projected increase in ridership. The increase in farebox revenue helps offset the decrease in State Operating Assistance revenues.

General Fund Contribution to DDOT

The budgeted General Fund Contribution to the DDOT is \$67.6 million for 2002-2003. The General Fund Contribution to the DDOT represents a \$5.8 million (7.9%) decrease from the previous year's budgeted amount.

General Fund Contribution to DTC

The budgeted General Fund Contribution to the DDOT for People Mover operations is \$10.8 million for 2002-2003. This General Fund Contribution represents a \$0.6 million (5.3%) decrease from the previous year's budgeted amount.

General Obligation Bond Sale

The budgeted General Obligation Bond Sale for the DDOT is \$7.0 million for 2002-2003. The bond proceeds will fund improvements to software and operating components of the People Mover. There were no budgeted amounts for bond sales for DDOT capital projects in the 2001-2002 budget.

Claims Fund Revenue and Appropriations

Claims Fund Revenue and Appropriations of \$6.5 and \$15.8 million, respectively, are included in the 2002-2003 Mayor's Proposed Budget, as in the previous budget. Based upon claim payouts, historical trends, and other risk management considerations, the Budget Department is expected to revise the Claims Fund Revenue and Appropriation for 2002-2003.

Employee Turnover Savings

The Employee Turnover Savings in the 2002-2003 Mayor's Proposed Budget is approximately \$8.2 million for DDOT operator and mechanic positions.

2001-2002 Budget Shortfall

The budgeted amount for State Operating Assistance was \$61.9 million in 2001-2002. However, the State estimated the payment for State Operating Assistance to DDOT at \$52.4 million. In the event of a shortfall, the DDOT will have to reduce operating expenses, or receive an increase in the General Fund Contribution, or a combination thereof.

Net Operating Losses

The pattern of the DDOT net operating losses is well documented, as are the public policy reasons underlying continued subsidies to transit operations. The following schedule details the DDOT net operating losses over recent years. The data for this schedule was obtained from the City's Comprehensive Annual Financial Report (CAFR) for fiscal years ended

June 30, 1999, 2000 and 2001; Budget Department data for fiscal year ended June 30, 2002; and the Mayor's Proposed Budget for 2002-2003.

<u>Period</u>	In Thousands		
	<u>Operating Revenue (A)</u>	<u>Operating Expense (B)</u>	<u>Net Operating (Loss)</u>
Per the CAFR Statement of Operations for DDOT:			
1998-1999	\$ 31,359	\$ 160,550	\$ (129,191)
1999-2000	\$ 29,011	\$ 168,648	\$ (139,637)
2000-2001	\$ 25,055	\$ 174,380	\$ (149,325)
Per Budget:			
2001-2002	\$ 27,825	\$ 169,633	\$ (141,808)
Per Mayor's Proposed Budget:			
2002-2003	\$ 32,075	\$ 164,067	\$ (131,992)

(A) Operating revenue consists primarily of farebox revenue.

(B) Budgeted operating expenses do not include the General Fund Contribution for operation of the People Mover, and the Capital Improvement - Bonds in 2001-2002 and 2002-2003.

Based on our analysis, the budgeted revenues and appropriations included in the 2002-2003 Mayor's Proposed Budget for DDOT are in line with the prior years' results and the current year's budget and appear reasonable.

DETROIT TRANSPORTATION CORPORATION
(PEOPLE MOVER)

The 2002-2003 Mayor's Proposed Budget includes a \$10.805 million subsidy for the Detroit Transportation Corporation (DTC), the entity which oversees operation of the People Mover. The subsidy will pass through the Detroit Department of Transportation (DDOT) to the DTC. The amount of the subsidy is based on the difference between estimated expenses of \$12.783 million and estimated revenues of \$1.978 million generated from People Mover operations.

The DTC summary budget for the 2002-2003 fiscal year is compared to the 2001-2002 summary budget in the following schedule. The DTC budget is not included in the City's budget.

	<u>In Thousands</u>		
	<u>2002-2003</u>	<u>2001-2002</u>	<u>Increase (Decrease)</u>
Expenses:			
Staff Expenses	\$ 6,330	\$ 5,841	\$ 489
Materials and Services	3,934	5,086	(1,152)
Facility Maintenance and Contract Services	1,757	1,401	356
Maintenance and Servicing of Equipment	<u>762</u>	<u>650</u>	<u>112</u>
Total Operating Expenses	<u>\$ 12,783</u>	<u>\$ 12,978</u>	<u>\$ (195)</u>
Revenues:			
Faregate Collections, Pass and Token Sales	\$ 615	\$ 615	\$ -
Other Revenue	260	230	30
Expected FTA Grant	-	759	(759)
Final Insurance Settlement	<u>1,103</u>	<u>-</u>	<u>1,103</u>
Total Revenue	<u>\$ 1,978</u>	<u>\$ 1,604</u>	<u>\$ 374</u>
Excess of Expenses Over Revenue	<u>\$ 10,805</u>	<u>\$ 11,374</u>	<u>\$ (569)</u>
City Of Detroit Subsidy	<u>\$ 10,805</u>	<u>\$ 11,374</u>	<u>\$ (569)</u>

The \$10.805 million subsidy in the 2002-2003 Mayor's Proposed Budget represents 84.5% of the total funding necessary to operate the People Mover. The subsidy represents a \$569,000 decrease (5%) from the subsidy in the 2001-2002 budget.

Materials and Services

The DTC budget includes a \$3.934 million estimate for Materials and Services expenses in 2002-2003, a decrease of \$1.152 million (22.6%) from the previous budgeted amount. This difference relates to a decrease in planned expenses for People Mover system upgrades and improvements during the 2003 fiscal year.

Faregate Collections

The budgeted faregate revenue is \$615,000 for 2002-2003, an amount which is unchanged from the previous budget. The current fare (\$0.50), estimated ridership (1,230,000 riders), and normal hours of operation are not expected to change in the 2002-2003 fiscal year.

Operating Costs

For fiscal year 2002-2003, the estimated operating cost per rider for the DTC is \$10.40. This estimate is based upon the total budgeted costs for People Mover operations (\$12.783 million) and the estimated ridership (1,230,000) for 2002-2003.

Insurance Settlement

The \$1.103 million final insurance settlement relates to damages sustained by the People Mover during the implosion of the J.L. Hudson Building in October 1998.

Transportation Grant

The \$759,000 grant revenue relates to a one-time Federal Transit Administration grant for replacement of roofs at the maintenance control facility and Times Square Station.

DTC Subsidy

The DTC is primarily funded by grants from the City. The budgeted subsidy to the DTC is \$10.805 million for 2002-2003, a decrease of \$569,000 from the 2001-2002 budget. Based upon the estimated ridership, the cost of the budgeted subsidy is \$8.78 for each \$0.50 ride.

General Obligation Bond Sale

A \$7.0 million City general obligation bond issuance is planned to fund improvements to software and operating components of the People Mover. There were no budgeted amounts for bond sales related to People Mover improvements in the 2001-2002 budget.